

VZCZCXRO6321
RR RUEHLMC
DE RUEHMU #1213/01 2751700
ZNR UUUUU ZZH
R 011700Z OCT 08
FM AMEMBASSY MANAGUA
TO RUEHC/SECSTATE WASHDC 3215
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHDC
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEHC/DEPT OF LABOR WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 02 MANAGUA 001213

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ELAB](#) [ETRD](#) [EINV](#) [PGOV](#) [KTEX](#) [NI](#)

SUBJECT: NICARAGUA: GOVERNMENT DECREES 18% WAGE HIKE

REF: MANAGUA 01187

11. (U) Summary. On September 24, Labor Minister Jeannette Chavez ended the latest round of Nicaraguan minimum wage negotiations by decreeing an 18% increase for all occupations. Dean Garcia, Executive Director of the Nicaraguan Association of Apparel Manufacturers (ANITEC), called the most recent increase "catastrophic for the sector." During the past 16 months, the Nicaraguan Government has increased the minimum wage by 60%. Gustavo Porras, an FSLN Deputy and President of the National Workers Front (FNT), expressed support for the government's announcement, despite having to settle for far less than the 53% he originally demanded. End summary.

12. (U) On September 24, Labor Minister Jeannette Chavez ended the latest round of Nicaraguan minimum wage negotiations by decreeing an 18% increase in the minimum wage for all occupations beginning October 1. Ministerial Decree JCHG-010-09-08 ended two months of negotiations among the private sector (represented by the Federation of Nicaraguan Business Associations, COSEP), labor unions (represented by rival FSLN-dominated trade unions and opposition unions), and the Nicaraguan Government (represented by the Ministry of Labor). Unable to reach an agreement, the Ministry of Labor unilaterally declared the wage hike, as allowed by the Minimum Wage Law (625/2007). Reftel describes the negotiations in detail.

13. (U) Representatives of the private sector have criticized the government's decision and warn that the wage increase could have a negative impact on employment and inflation. Among the most vocal critics is Dean Garcia, Executive Director of the Nicaraguan Association of Apparel Manufacturers (ANITEC), who said that the most recent increase, after previous increases of 15% in January 2008 and 18% in June 2007 (for a cumulative increase of 60% in 16 months), "would be catastrophic for the sector." Garcia said that although most apparel assembly workers earn more than the previous minimum wage of \$103 a month, many manufacturers would need to increase wages to meet the new minimum of \$121 a month. He said that to maintain worker productivity, wage increases would have to be passed on to those who earn \$150 to \$200 a month as the result of incentive pay.

14. (SBU) In addition to rising wages, Garcia told Econoff that apparel manufacturers in Nicaragua will need to deal with a 12% increase in electricity rates (at 17 cents per kilowatt, already the highest in the region). Garcia added that customs delays are further eroding the competitiveness of the sector. The cost increases occur at a time when price competition has become fierce as a result of the economic slowdown in the United States and strong Asian production growth. He said that apparel buyers are looking elsewhere to place new orders, and as a result manufacturers in Nicaragua

will begin to cut their work force. Nicaraguan exports of apparel to the United States, which increased by 35% from 2005 to 2007 (since CAFTA-DR implementation), are up only 2% for the first six months of 2008. About 70,000 Nicaraguans are now employed in apparel manufacturing jobs.

15. (U) COSEP President Jose Adan Aguirre called the wage increase "dangerous and unsustainable." He predicted that employment would suffer as a result of the increase. Local economist Nestor Avendano explained that the wage increase does not reflect productivity growth but instead tracks the consumer price index for food and beverages, which was up 17.5% during the past six months. He cautioned that the wage hike could contribute to further inflation. Even without the wage increase, a number of local economists forecast 25% inflation for 2008.

16. (SBU) The decree also increases the minimum wage by 18% for government employees. Ministry of Finance Secretary General Ivan Acosta argued that the wage increase will have little impact on the national budget, because only about 5,000 government employees earn the minimum wage. The increase in the government's wage bill would be about \$70,000 a month.

17. (SBU) Labor leaders were divided in their reaction to the decree. They initially demanded a much higher increase, arguing that inflation had eroded purchasing power and prevailing wages were no longer sufficient for basic needs. Gustavo Porras, an FSLN Deputy who is also President of the National Workers Front (FNT), put a positive spin on the

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announcement in support of the government's position. Despite settling for much less than the 53% increase he originally demanded, Porras concluded that 18% was "reasonable and within the parameters we had calculated." Non-FSLN labor leaders complained that the private sector and the FSLN manipulated the minimum wage negotiation, to the detriment of Nicaraguan workers.

18. (SBU) Comment. With municipal electoral campaigns in full swing, resisting the temptation to increase the minimum wage would have been too much to expect from a government driven by populist propaganda rather than economic fundamentals. The apparel sector is especially sensitive to wage increases. Over the past 12 months, the sector has shed more than 10,000 jobs. The situation is compounded by apparel manufacturers' inability to source fabric from the United States so that they can take full advantage of CAFTA-DR provisions that allow the use of inexpensive third-country fabrics. Nicaragua is losing competitiveness and along with it, sorely needed jobs. The government is likely to ignore this perspective, preferring a socialist explanation that blames capital for leaving when it can no longer exploit labor. End comment.
CALLAHAN